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TO RUEHC/SECSTATE WASHDC IMMEDIATE 5212
INFO RUEHOO/CHINA POSTS COLLECTIVE
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C O N F I D E N T I A L SECTION 01 OF 04 BEIJING 001403

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E.O. 12958: DECL: 03/02/2032
TAGS: [PGOV](#) [PREL](#) [ECON](#) [SOCI](#) [CH](#)
SUBJECT: LEGISLATING HARMONY? CHINA'S ANNUAL POLITICAL
PAGEANT OPENS TOMORROW

Classified By: Political Internal Unit Chief Susan Thornton.
Reasons 1.4 (b) and (d).

Summary

1. (C) China's annual legislative confab will soon get under way, with the national legislature convening on March 5 and the top advisory body opening on March 3. Although few surprises are expected at this highly scripted event, the public and media scrutiny of delegates and discussions will reveal the leadership's priorities for the coming year, as well as plans for achieving them. Major themes on the agenda include implementing President Hu's "Harmonious Society" concept, as well as the ongoing crackdown on corrupt officials. Draft laws to protect private property rights and unify the income tax rate for foreign and domestic firms are expected to pass. Major, senior-level leadership changes are unlikely at this year's session, given that most of those decisions will be made closer to this fall's 17th Party Congress. Local media is playing up the legislature's supposedly enhanced role, but contacts note that, while discussions are more lively, the legislature remains firmly under the control of the Party, which sets the body's agenda and limits the debate. One departure so far this year is that there have been comparatively few reports of crack downs on dissidents and others who typically receive unwanted attention from security authorities at this time of year. Security is sure to be tight, however, and Beijing police will be on high alert. End Summary.

China's Annual Political Pageant

2. (C) Thousands of delegates from across the country are streaming into Beijing as the capital prepares to hold the so-called "Two Meetings," China's annual national legislative and consultative confab. The National People's Congress (NPC), China's legislature and "highest organ of state power" under the constitution, will open March 5. The largely ceremonial advisory body, the Chinese People's Political Consultative Conference (CPPCC), begins March 3. The sessions are set to close March 16 and 15, respectively. Key events during the NPC will include Premier Wen Jiabao's presentation of the government work report at the opening session, the Minister of Finance's budget report, and a total of at least 10 press conferences, some by senior officials, including Premier Wen's final meeting with the media that will wrap up this year's proceedings.

3. (C) Few surprises are expected at this highly scripted event, which is designed to enhance the ruling Communist Party's legitimacy and build consensus for Party policies. NPC deputies, as the people's nominally elected representatives, will comment and vote on government reports and pass carefully vetted legislation. The sessions are nonetheless worth watching because they reveal details about

how China's leadership intends to implement various initiatives. Public concerns from around the country will also surface, though discussions are sure to stay within fairly narrow parameters and most truly contentious debate will stay behind closed doors. Locally, interest in the NPC and CPPCC sessions pales in comparison to this fall's Party Congress, which will be the truly significant political event of the year.

Major Themes: "Harmonious Society," Anti-Corruption

14. (C) President Hu Jintao's "Harmonious Society" concept will be a major theme of this year's deliberations. Harmonious society represents the Party's attempt to deal with social problems and development gaps, and the NPC and CPPCC sessions are supposed to give "concrete meaning" to this vague term, according to Dong Lisheng (protect), Professor at the Chinese Academy of Social Sciences (CASS). Dong recently told Poloff he expects Chinese leaders at the NPC to discuss an array of measures designed to create harmony and stability by addressing problems in education, health care, social security, income distribution and other "livelihood" issues. Along these lines, more balanced, environmentally friendly economic development will also be on the agenda. The Party's ongoing anti-corruption campaign is also scheduled to receive significant attention, according to official media, possibly including specifics on the proposed new government body designed to prevent corruption, announced earlier this year by the Central Discipline Inspection Commission. To demonstrate the NPC's own commitment to cracking down on malfeasance, Xinhua announced this week the dismissal of three NPC lawmakers and four CPPCC members, bringing to 30 the total number of NPC/ CPPCC officials

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dismissed on corruption charges over the past four years.

Legislation: Controversial Property Law to Pass

15. (C) Two pieces of draft legislation, including the controversial property law, are slated for passage during this NPC session. After four years of contentious and often public debate that reflected larger concerns over the nature of economic reform, the bill is set for approval, albeit in diluted form. The legislation is designed to give equal protection to both public and private property and has been a lightning rod for criticism by leftist scholars, who claim it will legitimate the inequalities of wealth and consolidate the growing power of China's new capitalist barons. These leftists have been supported behind the scenes by vested interests in the state-owned enterprise (SOE) sector, who fear the legislation will threaten their privileged and protected positions, Dong Lisheng stated. The legislation's passage will be a victory for reformers and sends the message that economic reform is "irreversible," Dong claimed. Meanwhile, according to University of Politics and Law Professor Yang Yusheng (protect), other segments of society, including homeowners such as himself, fear the law's provisions protecting private property may have been excessively watered down.

16. (C) A corporate income tax law that will unify the tax rate for both domestic and foreign invested enterprises at 25 percent is the other major piece of legislation on the NPC docket. Finance Minister Jin Renqing has said the draft law will result in a lower overall unified corporate tax rate for Chinese firms; unified, regulated measures and standards for income tax deductions; and consolidated preferential tax policies. The draft proposes to eliminate tax holidays for manufacturing and export-oriented foreign-funded firms. The draft law will have a significant impact on foreign firms whose businesses are in labor-intensive, low-tech export processing of manufacturing products. Downplaying foreign concerns, Finance Minister Jin has stated publicly that the

law gives foreign companies a five-year grace period before the higher tax rate comes into effect. Jin also claimed that a preferential tax rate for high- and new-technology companies will remain.

Economic, Rural Issues

17. (C) Macroeconomic controls are a likely point of contention at this year's NPC, representing the real disconnect between the central and provincial governments over how to slow growth and balance the economy. At the NPC, the central government will likely continue to emphasize the need for prudent fiscal and monetary policies to maintain economic stability. Provincial officials, meanwhile, are sure to complain, with poorer provinces in Central and Western China arguing that balanced development should mean allowing them to continue to grow and be exempt from national targets. Coastal provinces, meanwhile, will argue that the national economy depends on their production, making it difficult for them to cool their economies. Financial reform may also be a topic for discussion. Premier Wen Jiabao's speech at the Financial Work Conference in January emphasized the importance of accelerating the establishment of a modern financial sector. NPC Deputies will hold a wide range of opinions on financial issues such as the future role of the Agricultural Bank of China, the pace of rural financial reform, and opening the financial sector to foreign investors.

18. (C) Rural issues such as the New Socialist Countryside policy will also receive attention at the NPC. The December 2006 Rural Work Conference, as well as the 2007 Number One Document that this year again addressed rural issues, demonstrates the government's emphasis on solving rural challenges. NPC Deputies will be keeping a close eye on the budgetary resources allocated to the New Socialist Countryside in 2007. Wealthy coastal provinces resist transferring funding to the poor interior in order to support a policy initiative that has been largely unsuccessful to date. In addition, there is considerable debate over how limited funding is utilized, with New Socialist Countryside resources often being misused by local officials for their own short-term political gain or for "image projects."

Media Coverage

19. (C) We are already witnessing the usual torrent of PRC media reports on all aspects of the "two meetings," hyping the "transparency" of the proceedings, asserting the credibility of delegates' legislative role, touting the

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alleged political weight of NPC decisions -- and ignoring policy debate and political controversy. Party leaders are trying to project an image of transparency by allowing the more than 500 foreign journalists attending the meetings to contact and interview NPC and CPPCC delegates directly. The NPC and CPPCC Press Center has even posted a digital map marking the hotel accommodations of all 35 NPC delegations to facilitate journalists' access to them. The NPC Press Center also provided, for the first time, electronic application forms for press passes online. As in the past, Xinhua has announced that some deputies will be invited to discuss issues with netizens online through the Xinhua website and that a Xinhua "live broadcast room" has been set up in the Great Hall. Both meetings' series of press conferences will again be covered live. Journalists have been invited to submit questions in advance for policy-related press conferences, in addition to asking questions from the floor.

Personnel Jockeying: All Eyes on the Fall

110. (C) Contacts say the likelihood of major, senior-level leadership changes at this NPC are unlikely, given that most

of those decisions will be made closer to this fall's 17th Party Congress; decisions on government posts would then be finalized at the March 2008 NPC session. Nevertheless, China is in the midst of a nationwide "end-of-term" personnel changeover, so there could be some new appointments announced during the NPC. For example, in the weeks leading up to the two meetings, the government announced four new vice-ministerial appointments, as well as several new vice governors. There will continue to be changes among staffing at the NPC as well, with the Hong Kong Chinese press speculating that leadership positions on several NPC committees may change during this year's session. Nevertheless, all eyes remain focused on the fall, which is when the major decisions on personnel will be revealed. With every major provincial leader in the country in Beijing for the NPC during the coming two weeks, behind-the-scenes jockeying for those positions is certain to be intense.

Foreign Policy, Defense Spending

¶11. (C) Foreign policy issues will not take center stage at the NPC and no major departures from current policy are expected, but Premier Wen will address foreign policy briefly in his work report. We expect to hear continued support for China's "peaceful development path" and creation of a "harmonious world," though in keeping with past years, Taiwan almost certainly will be addressed as well. Official figures on China's military budget increase will be announced at the NPC; last year, Premier Wen announced a 14.2 percent increase in defense spending.

Wen Jiabao's People's Daily Article

¶12. (C) In a possible preview of Premier Wen's government work report, the Party mouthpiece, People's Daily, published an article signed by Wen on February 27 strongly reaffirming the Party's current reform strategies and international agenda. Liu Jieyi, MFA Director General for North American Affairs, flagged the article for poloff, underscoring both the unusual nature of such an article on the eve of the NPC, as well as its importance as a statement of the Party's continued reform path. Although portrayed in foreign media as a rejection of political reform, the February 27 article appears designed to dampen expectations of major policy shifts amidst continuing debate over the direction and pace of economic and political reforms. Liu Jieyi pointedly declared that the article is a "pro-reform" statement.

¶13. (C) In the article, Wen emphasized that China, at its current stage of development, must maintain its focus on economic reforms and growth, while also promoting fairness and social justice and continuing political reform in its own way. Wen specifically stated that democracy and socialism are not incompatible. Calling China's economic development over the past 28 years a "miracle," Wen declared that China's current opportunity for economic growth is a "rare and fleeting" thing that must be seized. Wen also called for a continuation of China's current foreign policy of "peaceful development," stressing in particular the need to hold to Deng Xiaoping's admonition to keep a low profile even while stepping up to greater international responsibilities. He made an explicit plea to promote China's culture and other aspects of soft power to increase China's international influence, while at the same time calling for greater efforts to ameliorate international concerns about China's growing global power.

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NPC's Influence Ascendant?

¶14. (C) A final theme for this year's meetings will be the supposedly enhanced role of the NPC in Chinese policymaking.

PRC media over the past week has called attention to the large number of laws passed by the NPC's Standing Committee during the past year, as well as the NPC's ambitious legislative agenda for the coming year. The NPC also announced this week a plan to use its enhanced oversight authority to hold hearings, require ministries to submit reports to the NPC Standing Committee and conduct investigation trips throughout the country. PRC-owned Hong Kong press even claim that this year's session, which will be two days longer than last year, demonstrates the "serious" work to be done by this year's NPC. The message, as put by MFA North American Affairs Division Deputy Director Ren Faqiang, is that the "quantity, quality and importance" of the NPC's work has improved "dramatically" over the past several years.

¶15. (C) Embassy contacts remain skeptical, though they recognize that the NPC has become increasingly lively and relevant. The NPC has come a long way since Mao-era days, when the NPC was truly nothing more than a rubber-stamp body with no real work or responsibility, commented CASS's Dong. Nevertheless, the NPC's real authority is not institutionalized and it remains firmly under the control of the Party's senior leaders. Deputies' freedom to debate issues and space for independent activity have actually diminished under NPC Chairman Wu Bangguo, he claimed. Vice Dean of the University of Politics and Law, Jiao Hongchang (protect), in a separate conversation, was slightly more optimistic. While he agreed that one should not overstate the NPC's importance, he thought its passage of a broad range of laws over the past decade is a significant accomplishment that has gone a long way toward establishing China's legal foundation. According to Dong Lisheng, however, what China needs today is not more laws, but effective implementation of those already on the books.

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